

## Message Text

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ACTION TRSE-00

INFO OCT-01 ISO-00 EA-07 NEA-10 EUR-12 L-03 H-02 IO-13

PA-01 PRS-01 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

DOT-00 /117 W

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P R 120852Z OCT 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 1394

INFO AMEMBASSY JAKARTA PRIORITY

AMCONSUL SURABAYA

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USADB

FOR NAC AGENCIES

E O 11652: ADS, DECLAS 1/12/77

TAGS: EAID, EFIN

SUBJ: PROPOSED ADB LOAN FOR SECOND ROAD PROJECT (INDONESIA)

SUMMARY: ADB MANAGEMENT PROPOSES \$48.21 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVERNMENT OF INDONESIA TO FINANCE MAJOR PART OF FOREX COST OF CONSTRUCTION OF NEW HIGHWAY BETWEEN SURABAYA AND GEMPOL AND WIDENING OF SELECTED SECTIONS AND RESURFACING OF EXISTING ROAD BETWEEN PORONG AND MALANG. PROPOSED PROJECT AIMS AT PROVIDING ADDITIONAL HIGHWAY CAPACITY TO RELIEVE PRESENT CONGESTION AND MEETING PROJECTED TRAFFIC GROWTH UP TO EARLY 1990'S IN SURABAYA-MELANG NORTH-SOUTH CORRIDOR IN EAST JAVA. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R102-76 WITH ATTACHMENTS DESCRIBING PROPOSED

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LOAN POUCHED ADDRESSEES OCTOBER 7. BOARD CONSIDERATION

SCHEDULED OCTOBER 28.

2. ADB MANAGEMENT PROPOSING \$48.21 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVERNMENT OF INDONESIA. PROCEEDS WILL FINANCE MAJOR PART OF FOREX COST OF: (A) CONSTRUCTING NEW 33.5 KM. FOUR-LANE ACCESS-CONTROLLED HIGHWAY BETWEEN SURABAYA PORT AND PORONG AND 5.5 KM. TWO-LANE ACCESS-CONTROLLED ROAD FROM PORONG TO GEMPOL; (B) WIDENING SELECTED SECTIONS AND RESURFACING 55 KM. ROAD BETWEEN PORONG AND MALANG; (C) TOTAL FOREX COST OF CONSULTANT SERVICES FOR PREPARATION OF ENGINEERING DESIGN, TENDER DOCUMENTS AND CONSTRUCTION SUPERVISION DURING PROJECT IMPLEMENTATION; AND (D) TRAINING IN MAINTENANCE FOR PROJECT. PROPOSED TERMS ARE 25 YEAR AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD, 9.1 PERCENT INTEREST. REPUBLIC OF INDONESIA TO BE BORROWER AND DIRECTORATE GENERAL OF HIGHWAYS (DGH), MINISTRY OF PUBLIC WORKS AND ELECTRIC POWER, TO BE EXECUTING AGENCY.

3. GOVERNMENT OF INDONESIA ATTACHES HIGH PRIORITY TO DEVELOPMENT OF COMMUNICATIONS IN GENERAL AND HIGHWAYS IN PARTICULAR AND HAS MORE THAN TRIPLED DEVELOPMENT PROGRAM FOR THIS SECTOR DURING SECOND FIVE-YEAR PLAN (1974/75-1978/79) COMPARED WITH FIRST FIVE-YEAR PLAN. COUNTRY'S ROAD TRANSPORT IS MOST INTENSIVELY DEVELOPED ON ISLAND OF JAVA, WHERE ABOUT 70 PERCENT OF ALL MOTORIZED VEHICLES WERE REGISTERED IN 1974. TOGETHER WITH SUMATRA, TWO ISLANDS ACCOUNT FOR 67 PERCENT OF COUNTRY'S TOTAL HIGHWAY NETWORK AND 89 PERCENT OF ALL MOTORIZED VEHICLES.

4. SINCE LATE 1960S, GOVERNMENT HAS BEEN MAKING CONSIDERABLE EFFORTS TO REHABILITATE AND IMPROVE ROAD NETWORK, WITH ASSISTANCE FROM WORLD BANK, UNDP, ADB AND BILATERAL SOURCES. TO DATE, BANK HAS PROVIDED TECHNICAL ASSISTANCE (TA) FOR TWO ROAD PROJECTS AND A \$20.0 MILLION LOAN FOR IMPROVEMENT OF PROVINCIAL AND DISTRICT ROADS IN CENTRAL AND EAST JAVA. (THUS FAR, BANK HAS EXTENDED EIGHT LOANS TOTALLING \$77.77 MILLION FOR SIX PROJECTS LOCATED IN EAST JAVA.) IN LIMITED OFFICIAL USE

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FEBRUARY 1974 BANK APPROVED \$310,000 TA FOR FEASIBILITY STUDY OF SURABAYA-MALANG HIGHWAY AND FIVE SECONDARY ROADS IN EAST JAVA. FOLLOWING REVIEW OF CONSULTANT'S RECOMMENDATIONS AND SUBSEQUENT INVESTIGATIONS BY STAFF CONSULTANTS, IT WAS CONCLUDED THAT TRAFFIC DIVERSIONS TO RAILWAY LINE WHICH RUNS PARALLEL ALONG WHOLE LENGTH OF PROJECT HIGHWAY WOULD BE MARGINAL AND WOULD NOT ADVERSELY AFFECT TIMING OR ECONOMIC VIABILITY OF PROPOSED

PROJECT.

5. PRESENT SURABAYA-MALANG HIGHWAY CONNECTS TWO MOST IMPORTANT POPULATION CENTERS IN EAST JAVA ROAD NETWORK, WHICH TOGETHER ACCOUNT FOR ONLY ABOUT 8 PERCENT OF TOTAL POPULATION BUT 54 PERCENT OF URBAN POPULATION OF PROVINCE. HIGHWAY ALSO EXTENDS ITS INFLUENCE TO AREAS WELL BEYOND THIS NORTH-SOUTH CORRIDOR.

6. PROPOSED PROJECT IS DESIGNED TO MEET TRANSPORTATION NEEDS IN CORRIDOR UNTIL AROUND EARLY 1990S TO SUSTAIN ECONOMIC ACTIVITY IN SURABAYA AND TO SUPPORT MOVEMENT OF AGRICULTURAL PRODUCTS, CONSTRUCTION AND CONSUMER GOODS TO THE FAST GROWING PORT CITY FROM RURAL HINTERLANDS, WHICH IS A MAJOR AGRICULTURAL SURPLUS REGION. PROJECT INVOLVES CONSTRUCTION OF 33.5 KM. FOUR-LANE ACCESS-CONTROLLED HIGHWAY ALONG NEW ALIGNMENT FROM NEAR SURABAYA PORT TO PORONG, AND 5.5 KM. TWO-LANE ACCESS-CONTROLLED HIGHWAY BETWEEN PORONG AND GEMPOL; CONSTRUCTION INCLUDES EIGHT INTER-CHANGES AND 7 KM. OF CONNECTING COLLECTOR-DISTRIBUTION ROADS PLUS A 22.2 KM. DIRECT ACCESS LINK TO SURABAYA PORT. PROJECT ALSO PROVIDES FOR WIDENING TO FOUR LANES 15 KM. OF SELECTED SECTIONS OF EXISTING ROAD BETWEEN PORONG AND MALANG, CONSTRUCTION OF 2 KM. BYPASS AT PANDAAN AND RESURFACING ENTIRE EXISTING ROAD BETWEEN PORONG AND MALANG. ALSO TO BE PROVIDED ARE CONSULTANT SERVICES (PARA. 8 BELOW).

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P R 120852Z OCT 76  
FM AMEMBASSY MANILA  
TO SECSTATE WASHDC PRIORITY 1395  
INFO AMEMBASSY JAKARTA PRIORITY  
AMCONSUL SURABAYA

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7. TOTAL PROJECT COST IS ESTIMATED AT \$128.0 MILLION EQUIVALENT, OF WHICH FOREX COMPONENT IS \$66.6 MILLION OR 52 PERCENT OF TOTAL. LOCAL CURRENCY COST OF \$61.4 MILLION EQUIVALENT COVERS LOCAL COST OF CIVIL WORKS, RIGHT-OF-WAY AND LOCAL ENGINEERING SERVICES. PROPOSED BANK LOAN WOULD COVER MAJOR PORTION OF FOREX REQUIREMENT FOR CIVIL WORKS PLUS EXPATRIATE CONSULTANT SERVICES AND ADDITIONAL \$210,000 WHICH IS AMOUNT OF PREVIOUS TA IN EXCESS OF \$100,000 PROVIDED EARLIER BY BANK FOR THIS PROJECT. IN ADDITION, SAUDI FUND FOR DEVELOPMENT (SFD) HAS AGREED IN PRINCIPLE TO PROVIDE \$50.0 MILLION LOAN TO MEET BALANCE OF FOREX REQUIREMENT OF ABOUT \$18.6 MILLION AND \$31.4 MILLION OF LOCAL COSTS. LOAN AGREEMENT WITH BANK WILL SPECIFY THAT TERMS AND CONDITIONS OF SFD LOAN WILL NOT BE INCONSISTENT WITH TERMS AND CONDITIONS FOR UTILIZATION OF BANK LOAN. SFD LOAN IS EXPECTED SHORTLY AFTER PROPOSED LOAN IS APPROVED BY BANK. (IF SFD FUNDS SHOULD NOT BE AVAILABLE, GOVERNMENT WOULD PROVIDE THESE FOREX AND LOCAL CURRENCY FUNDS.) BALANCE OF \$30.0 MILLION  
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EQUIVALENT OF LOCAL CURRENCY COST WILL BE MADE AVAILABLE BY GOVERNMENT FROM ITS OWN RESOURCES.

8. GOVERNMENT WILL RECRUIT FOREIGN CONSULTING FIRM IN ACCORDANCE WITH BANK'S GUIDELINES TO CARRY OUT DETAILED ENGINEERING AND PREPARATION OF SPECIFICATIONS AND TENDER DOCUMENTS AND TO SUPERVISE CONSTRUCTION OF CIVIL WORKS. THESE CONSULTANTS WILL ALSO PROVIDE TRAINING TO DGH STAFF ON MAINTENANCE PROCEDURES AND METHODS FOR ONE-YEAR PERIOD AFTER COMPLETION OF HIGHWAY CONSTRUCTION. FOREIGN CONSULTANTS WILL PROVIDE KEY PERSONNEL AND ENGAGE ALL SUPPLEMENTARY STAFF LOCALLY EITHER DIRECTLY OR THROUGH LOCAL CONSULTING FIRM OF THEIR CHOICE.

9. GOVERNMENT WILL ENGAGE PRE-QUALIFIED CONTRACTORS FOR ENTIRE CIVIL WORKS THROUGH INTERNATIONAL COMPETITIVE BIDDING IN ACCORDANCE WITH BANK'S GUIDELINES. WHILE LOCAL CONTRACTORS ARE NOT CAPABLE TO UNDERTAKE CIVIL WORKS INVOLVED FOR NEW HIGHWAY, THEY MIGHT QUALIFY FOR CIVIL WORKS RELATED TO IMPROVEMENT OF EXISTING ROAD.

FOR ALL CIVIL WORKS, FOREX COMPONENT IS ESTIMATED AT 60 PERCENT OF TOTAL COST INRESPECTIVE OF WHETHER IT IS UNDERTAKEN BY FOREIGN OR LOCAL CONTRACTORS. IT IS TENTATIVELY ENVISAGED THAT CIVIL WORKS WILL FORM FOUR CONTRACT PACAKGES TO ENSURE RESPONSE FROM LARGE NUMBERS OF QUALIFIED CONTRACTORS AND TO ENSURE THAT PROJECT IS COMPLETED WITHIN ANTICIPATED FIVE-YEAR IMPLEMENTATION PERIOD.

10. DGH, THE EXECUTING AGENCY, IS WELL ORGANIZED UNIT UNDER MINISTRY OF PUBLIC WORKS AND ELECTRIC POWER RESPONSIBEL FOR PLANNING, BUDGETING, CONSTRUCTION AND COORDINATION OF MAINTENANCE OF NATIOAL AND PROVINCIAL ROADS. IT HAS BENEFITED FROM IN-SERVICE TRAINING PROVIDED UNDER A UNDP-FINANCED HIGHWAY ADVISORY SERVICES PROJECT AND HAS EXECUTED VARIOUS ROAD PROJECTS UNDER MULTILATERAL AND BILATERAL FINANCING. DGH CONTINUES TO BE CONSTRAINED BY SHORTAGE OF QUALIFIED AND EXPERIENCED TECHNICAL PERSONNEL. HOWEVER, DGH'S CAPABILITY SHOULD BE CONSIDERABLY STRENGTHENED THROUGH ENGAGEMENT OF TEAM OF EXPERTS (FOR VARYING PERIODS FROM 18 TO 48 MONTHS)

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UNDER IBRD'S FOURTH HIGHWAY PROJECT.

11. PROJECT AIMS AT PROVIDING ADDITIONAL HIGHWAY CAPACITY TO REDUCE PRESENT AND ANTICIPATED CONGESTION ON ONE OF MOST DENSELY TRAVERSED HIGHWAYS IN INDONESIA. IT WOULD SIGNIFICANTLY IMPROVE FLOW OF PORT TRAFFIC AND INDUSTRIAL OUTPUT FROM SURABAYA AS WELL AS SURPLUS PROVINCIAL AGRICULTURAL PRODUCE AND INDUSTRIAL INPUTS INTO A MAJOR CONSUMER MARKET. INDIRECTLY IT WILL COMPLEMENT SURABAYA PORT EXPANSION AND OTHER ADB DEVELOPMENT EFFORTS IN EAST JAVA. PROJECT AS WHOLE HAS ESTIMATED ECONOMIC INTERNATLRATE OF RETURN OF 31 PERCENT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

12. REQUEST JAKARTA COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 72.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LOANS, PROGRAMS (PROJECTS), HIGHWAYS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 OCT 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Authority:** ElyME  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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**Subject:** PROPOSED ADB LOAN FOR SECOND ROAD PROJECT (INDONESIA) SUMMARY: ADB MANAGEMENT PROPOSES \$48.21 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCE S TO GOVERNMENT  
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